



Middle-Income Housing Advisory Council  
Opportunity Zone Overview  
March 11, 2019

# OPPORTUNITY ZONE (O-ZONE) ACT

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- Passed Congress in December 2017
- Washington state has 139 qualified census tracts
- Seattle has 11 census tracts across 6 neighborhoods
  - Beacon Hill
  - Central District
  - Chinatown International District
  - Pioneer Square
  - Rainier Valley
  - SODO

# QUALIFIED O-ZONE INVESTMENTS

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- Capital gain must be invested in a qualified fund within 180 days of recognition
- **Deferred:** tax on capital gain can be deferred until December 31, 2026
- **Reduced:**
  - Capital gain tax will be reduced by 15% if invested in 2019 and held through 2026
  - Capital gain tax will be reduced by 10% if invested by 2021 and held through 2026
- **Eliminated:** Capital gain tax on a qualified investment is eliminated if invested for 10+ years

# QUALIFIED OPPORTUNITY FUND (QOF)

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- Qualified investment purchased by QOF from unrelated party after December 31, 2017
- Requires original use (new building) or substantial improvement (existing building)
  - Substantial improvement minimum is 100% of the basis of the property
  - Measured over any 30-month period
  - Measurement excludes value of land
- Building with basis of \$100 at time of purchase requires a minimum \$100 investment

# VALUE OF QUALIFICATION: CAPITAL GAINS

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- \$100 of capital gains invested in QOF in 2019
  - \$20 of capital gains tax is deferred to 2026
    - \$5.75 is the approx. present value of the deferred tax
  - \$3 of capital gains tax is reduced from the original \$20 at time of 2026 payment
    - \$2.15 is the approx. present value of the tax reduction



# VALUE OF QUALIFICATION: MARKET RATE HOUSING

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- \$100 of capital gains invested in QOF and sold in 2029 for ~\$260 (10% pre-tax return)
  - ~\$32 of capital gain tax eliminated
  - ~6.5% after-tax return *without* QOF
  - ~9.0% after-tax return *with* QOF
  - ~35% improvement in return

# VALUE OF QUALIFICATION: MIDDLE-INCOME HOUSING

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- \$100 of capital gains invested in QOF and sold in 2029 for ~\$165 (5% pre-tax return)
  - ~\$13 of capital gain tax eliminated after 10 years
  - ~2.5% after-tax return *without* QOF
  - ~3.5% after-tax return *with* QOF
  - ~65% improvement in return

# O-ZONES & MIDDLE-INCOME HOUSING

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- Middle-income housing returns still substantially less than market-rate housing returns
- Middle-income housing development will still require social-impact investors
- Social-impact investors must be willing to forego higher returns



# ANTICIPATED OUTCOMES IN O-ZONES

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- Increased market-rate housing development driven by higher QOF expected returns
- Increased land prices due to market-rate development demand
- Displacement and gentrification pressures
- Potential increase in overall housing supply

# MIDDLE-INCOME PARTNERSHIPS

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- Real estate owner(s) who have goals and values consistent with middle-income housing
  - Willing to partner with a middle-income developer and maintain long-term ownership
- Equity & Debt investors who have goals and values consistent with middle-income housing
  - Willing to accept a lower-than-market return to maintain the middle-income mission

# BIOGRAPHIES

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Greg Gorder is the managing director of Gaard Development. Before founding Gaard Development, he founded and was managing director of Intellectual Ventures and a law partner at Perkins Coie law firm in Seattle.



Val Gorder is a community activist, volunteer and advocate on behalf of economically disadvantaged populations in Seattle. Her engagement encompasses issues from homelessness to higher education.



Matthew Gee is the director of business development and operations for Gaard Development. Prior to Greg's retirement from Intellectual Ventures, Matt served as Greg's chief of staff.

# CONTACT:

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